SaskPower

1988 ANNUAL REPORT

Regina
March 1989

To Her Honour
Sylvia Fedoruk
Lieutenant Governor
of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 1988, including the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of the corporation, all in accordance with The Power Corporation Act.

I have the honour to be, Madam,
Your obedient servant,

Eric A. Berntson
Minister Responsible
Saskatchewan Power Corporation

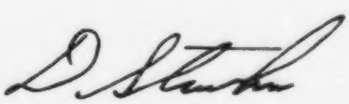
Message from the Chairman

While SaskPower's primary purpose is to supply electricity to residents and industry, the Board of Directors continues to direct the corporation to actively encourage and assist businesses in Saskatchewan.

In addition to major projects, SaskPower's normal operations greatly contribute to the economic development of the province. In total 88 per cent of SaskPower's goods and services were purchased within the province in 1988. This is up from 36 per cent in 1982, before SaskPower started its program to support Saskatchewan businesses.

On June 1, 1988, the electrical and natural gas divisions were formally separated. This was accomplished by forming Saskatchewan Energy Corporation (SaskEnergy) and its wholly-owned subsidiary companies, Provincial Gas Ltd. and TransGas Limited. Provincial Gas has the responsibility of bringing gas to customers, while TransGas operates major gas transmission lines within the province. SaskEnergy and its divisions are structured to meet the challenges presented by deregulation of the gas industry.

Serving customers efficiently, reliably and economically continues to be the main priority of the new corporate structure. We are proud of the high level of service provided by our competent and hard-working employees, and I thank them on behalf of the Board of Directors.



Donald Stankov, CA
Chairman of the Board

Message from the President

I am pleased to report that 1988 was a record year for SaskPower. We achieved a $122 million profit from operations and an overall profit, after extraordinary items, of $292 million. Both of these were the highest in our 59-year history.

Although our results are encouraging, we are still concerned about our overall financial situation. The corporation's more than $2 billion debt is our biggest concern. We must continue our efforts to reduce that debt. One way is to achieve profits of between $150 million and $200 million annually.

Our total electrical generation, supplemented by imports, increased by more than seven per cent in 1988, primarily due to increased industrial and commercial consumption.

We continued our program of replacing aging rural overhead lines with more reliable underground electrical service.

Because we take our responsibility to protect the environment very seriously, the Shand Power Station will incorporate the latest technology to protect the environment.

The hard work of all employees has been an essential factor in the corporation's success in recent years and I would like to thank them for their support. I also thank the Chairman and the Board of Directors for their leadership and direction during the past year.

George D. Hill

George D. Hill, QC
President and Chief Executive Officer

SaskPower Board of Directors

Hon. Eric A. Berntson
Minister Responsible and Vice-Chairman
Carievale

Donald Stankov, CA
Chairman, Executive Committee
President, Thyssen Mining Construction of Canada Ltd., Regina

Alfred E. Bechard
Finance Committee
Farmer, Sedley

Wally Blaisdell, APR
Executive Committee, Finance Committee
President, Markets Plus Inc., Regina

Barry D. Bridges, LL.B.
Executive Committee
Partner, McLellan, Cundall and Bridges, Estevan

B. Ross Giles, CA
Executive Committee, Finance Committee, Audit Committee
General Manager, Degelman Industries, Ltd., Regina

Edward A. Laurence
Executive Committee, Finance Committee
President, Laurence Investments Ltd., Yorkton

Monty N. Manning
Audit Committee
President, Manning Mercury Sales Ltd., North Battleford

Patricia Y. Olynik
Audit Committee
Homemaker, Moose Jaw

Laura Smith
Audit Committee
Farmer, Pathlow

Glenn R. Thorpe
Executive Committee, Finance Committee
President, Tower Line Contractors Ltd., Yorkton

(from left) Donald Stankov, Barry Bridges, Monty Manning, Edward Laurence, Ross Giles, Alfred Bechard, Wally Blaisdell, Laura Smith, Patricia Olynik, Glenn Thorpe.

Report of Management

Management is responsible for the integrity of the financial data reported by the Corporation and its subsidiaries. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data in accordance with generally accepted accounting principles in Canada which are consistently applied, with any exceptions specifically described in the notes to the consolidated financial statements. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures and exercises its best judgment in order that such statements reflect fairly the consolidated financial position, results of operations and changes in cash position.

In order to gather and control financial data, the Corporation has established accounting and reporting systems supported by internal controls and an internal audit program. In establishing systems of internal control, management weighs the cost of such systems against the benefits that it believes can be derived. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

Clarkson Gordon, Chartered Accountants, have examined the Saskatchewan Power Corporation's consolidated statements of financial position as at December 31, 1988 and the related consolidated statements of income and retained earnings and changes in cash position for the year then ended. Their responsibility is to express an opinion on the fairness of management's financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

In ensuring that management fulfills its responsibility for financial reporting and internal control, the Board of Directors is assisted by the Audit Committee whose members are outside directors. At regular meetings, the committee discusses audit and financial reporting matters with representatives of management, the internal auditors and the external auditors. The Audit Committee has reviewed the consolidated financial statements with Clarkson Gordon and has submitted its report to the Board of Directors. The Board of Directors has reviewed the Annual Report in advance of its release and has approved its content and authorized its publication.

On behalf of Management,

G. D. Hill, QC
President

H. Jim, CA, P.Eng.
Senior Vice-President, Finance

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statements of financial position of Saskatchewan Power Corporation as at December 31, 1988, and the consolidated statements of income, retained earnings, and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Saskatchewan Power Corporation as at December 31, 1988 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in the method of accounting for gas inventories and contributions in aid of construction as explained in note 11 to the financial statements, on a basis consistent with that of the preceding year.

Clarkson Gordon

Regina, Saskatchewan
February 10, 1989

Chartered Accountants

Saskatchewan Power Corporation

Consolidated statements of financial position

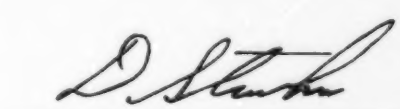
as at December 31, 1988 and 1987 (restated - Note 11)

(in millions)

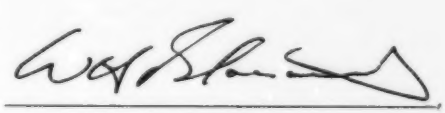
Assets

	Consolidated		Electric		Gas	
	1988	1987	1988	1987	1988	1987
Property, plant and equipment						
Property, plant and equipment (Note 2)	$3,385	$3,358	$2,666	$2,541	$719	$817
Less: Accumulated depreciation and depletion	887	883	705	635	182	248
	2,498	2,475	1,961	1,906	537	569
Construction in progress	162	87	135	78	27	9
	2,660	2,562	2,096	1,984	564	578
Current assets						
Cash and short-term investments	42	40	31	(5)	11	45
Accounts receivable and unbilled revenue	148	122	102	72	46	50
Inventories (Note 11)	140	114	49	45	91	69
	330	276	182	112	148	164
Other assets and deferred costs (Note 7)	225	95	58	68	167	27
	$3,215	$2,933	$2,336	$2,164	$879	$769

Approved on behalf of the Board:



_____, Director



_____, Director

Liabilities and retained earnings

	Consolidated		Electric		Gas	
	1988	1987	1988	1987	1988	1987
Long-term debt						
Advances from the Province of Saskatchewan (Note 3)	**$2,083**	$2,259	**$1,754**	$1,898	**$329**	$361
Saskatchewan Power Corporation Savings Bonds (Note 4)	**349**	278	**335**	214	**14**	64
	2,432	2,537	**2,089**	2,112	**343**	425
Less equity in sinking funds (Note 3)	**276**	300	**216**	234	**60**	66
Long-term debt net of sinking funds	**2,156**	2,237	**1,873**	1,878	**283**	359
Less amounts due within one year (Note 3)	**116**	140	**106**	116	**10**	24
	2,040	2,097	**1,767**	1,762	**273**	335
Current liabilities						
Accounts payable and accrued liabilities	**209**	184	**164**	97	**45**	87
Long-term debt due within one year	**116**	140	**106**	116	**10**	24
	325	324	**270**	213	**55**	111
Other liabilities and deferred income (Note 11)	**259**	213	**193**	149	**66**	64
Retained earnings	**591**	299	**106**	40	**485**	259
	$3,215	$2,933	**$2,336**	$2,164	**$879**	$769

See accompanying notes

Saskatchewan Power Corporation

Consolidated statements of income

For the years ended December 31, 1988 and 1987 (restated - Note 11)

(in millions)

	Consolidated		Electric		Gas	
	1988	1987	1988	1987	1988	1987
Revenue						
Sales to customers	$910	$863	$634	$564	$276	$299
Inter-utility sales eliminated on consolidation	—	—	5	1	22	7
	910	863	639	565	298	306
Costs and expenses						
Cost of electricity and gas	238	257	114	92	124	165
Inter-utility costs eliminated on consolidation	—	—	11	5	16	3
Operating, maintenance and administration	226	218	159	150	67	68
Depreciation and depletion	102	101	83	79	19	22
	566	576	367	326	226	258
Income before finance charges and extraordinary items	344	287	272	239	72	48
Finance charges (Note 5)	222	251	204	216	18	35
Income before extraordinary items	122	36	68	23	54	13
Extraordinary items (Note 6)	170	—	(2)	—	172	—
Net income	$292	$ 36	$ 66	$ 23	$226	$ 13

Saskatchewan Power Corporation

Consolidated statements of retained earnings

For the years ended December 31, 1988 and 1987 (restated - Note 11)

(in millions)

	Consolidated		Electric		Gas	
	1988	1987	1988	1987	1988	1987
Retained earnings (deficit), beginning of year, as previously reported	$249	$213	$(15)	$(35)	$264	$248
Adjustments for accounting policy changes (Note 11)	50	50	55	52	(5)	(2)
Retained earnings, beginning of year, as restated	299	263	40	17	259	246
Net income for the year	292	36	66	23	226	13
Retained earnings, end of year	$591	$299	$106	$ 40	$485	$259

See accompanying notes

Consolidated statements of changes in cash position

For the years ended December 31, 1988 and 1987 (restated - Note 11)

(in millions)

	Consolidated		Electric		Gas	
	1988	1987	1988	1987	1988	1987
Cash from operations available for debt servicing and capital expenditures (Note 8)	$428	$393	$386	$290	$ 42	$103
Cash used for debt servicing						
Gross interest payments	283	288	243	245	40	43
Principal repayments	129	87	107	69	22	18
Sinking fund installments	13	13	10	11	3	2
	425	388	360	325	65	63
Net cash available (deficiency) for capital expenditures	3	5	26	(35)	(23)	40
Cash used for capital expenditures						
Additions to property, plant and equipment	315	185	180	128	135	57
Less interest capitalized	(8)	(4)	(7)	(3)	(1)	(1)
Other	(7)	12	11	11	(18)	1
	300	193	184	136	116	57
Net cash deficiency before financing	(297)	(188)	(158)	(171)	(139)	(17)
Cash from financing and other sources						
Advances from the Province	74	81	74	64	—	17
Saskatchewan Power Savings Bonds	295	121	295	96	—	25
	369	202	369	160	—	42
Less early repayment of advances and redemptions of Saskatchewan Power Savings Bonds	(238)	—	(198)	—	(40)	—
	131	202	171	160	(40)	42
Cash proceeds from sale to Saskoil	122	—	—	—	122	—
Other	46	27	23	12	23	15
	299	229	194	172	105	57
Increase (decrease) in cash	2	41	36	1	(34)	40
Cash position (indebtedness), beginning of year	40	(1)	(5)	(6)	45	5
Cash position (indebtedness), end of year	$ 42	$ 40	$ 31	$ (5)	$ 11	$ 45
Cash position (indebtedness) at end of year consists of:						
Cash and short-term deposits	$ 48	$ 96	$ 37	$ (2)	$ 11	$ 98
Bank indebtedness	(6)	(56)	(6)	(3)	—	(53)
	$ 42	$ 40	$ 31	$ (5)	$ 11	$ 45

See accompanying notes

The Corporation was established pursuant to The Power Corporation Act, passed on April 8, 1950. In accordance with the provisions of this Act, the Corporation's main functions include the generation, purchase, transmission, distribution and sale of electrical energy and the production, purchase, transmission, distribution and sale of natural gas.

1. Accounting policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles and conform in all material respects with International Accounting Standards, except that there is no provision for income taxes as they are not levied on earnings of Crown Corporations. The following policies are considered to be significant:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Saskatchewan Energy Corporation. All intercompany accounts and transactions have been eliminated on consolidation.

In 1988, the gas operations were reorganized from being a division of the Corporation into separate companies. The parent company is Saskatchewan Energy Corporation. Its subsidiaries are Provincial Gas Ltd., TransGas Limited, Many Islands Pipe Lines (Canada) Limited and Bayhurst Gas Limited. During 1988 the operations of North-Sask Electric Ltd. and Many Islands Pipe Lines Limited were assumed by Saskatchewan Power Corporation and the companies were wound up.

Corporate assets, liabilities and expenses are allocated to the electrical and gas operations on bases which are reviewed and updated annually and are applied on a consistent basis.

(b) Property, plant and equipment

Property, plant and equipment are recorded at cost and include direct material, interest, labor and overhead costs.

The costs of renewals and enhancements which extend the economic useful life of assets are capitalized. On partial disposal of an asset, the cost less the proceeds of sale is charged to accumulated depreciation. When a complete asset is retired, a gain or loss is recognized in the statement of income.

Costs associated with modifications to property, plant and equipment as a result of environmental concerns are capitalized as part of the cost of plant in service and are depreciated over the remaining useful life of the related asset.

Maintenance and repair costs are expensed as incurred.

The full cost method of accounting for gas properties and related expenditures is followed. Under this method, all costs related to the exploration and development of gas reserves are capitalized. Capitalized costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, general and administrative costs and drilling of productive and non-productive wells. Interest is capitalized on unproved properties and major development projects, provided the related costs are not being depleted or depreciated. Proceeds from minor property sales are reflected as a reduction of the total capitalized costs; gains or losses on significant property sales are recognized in the statement of income.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. Depletion of gas and coal properties and depreciation of production equipment and facilities are calculated using the unit of production method based on estimated proven reserves.

(c) Capitalization of interest
Interest associated with major capital and development projects is capitalized during the construction period at the Corporation's weighted average interest rate of long-term borrowings in the current year.

(d) Inventories
Gas inventories (Note 11) and stores inventories, consisting of maintenance material, supplies and plant repair parts, are recorded at average cost. Coal and fuel oil are recorded at cost on a first-in, first-out basis.

(e) Contributions in aid of construction
Contributions in aid of construction consist of funds received relating to new service connections. These contributions are classified as deferred income and are amortized over the estimated service life of the related asset (Note 11).

(f) Revenue recognition
Revenue is recognized when natural gas and electrical services are delivered to customers. The estimate of services rendered but not billed is included in unbilled revenue.

(g) Foreign currency translation
Transactions denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At year end, the recorded amounts of monetary assets and liabilities are adjusted using the exchange rate at that date. Any resulting exchange gains and losses are included in the statement of income in the current period except for unrealized exchange gains and losses on long-term monetary items which are deferred and amortized on a straight-line basis over the remaining life of the asset or liability.

(h) Amortization of discount and issue expenses
Debt discount and issue expenses are amortized on a straight-line basis over the term of the respective debt issue.

(i) Pension plans
The Corporation provides for pension plans for substantially all employees. One of the plans is a money purchase plan and the amount to be contributed is determined by the Superannuation (Supplementary Provisions) Act. The other plan is a defined benefit plan and the contributions are based on actuarial valuations.

The cost of pension benefits in the defined benefit plan is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects best estimates of the expected investment yields, salary adjustments, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employees.

2. Property, plant and equipment
(in millions)

	Cost	Accumulated depreciation & depletion	Net book value 1988	Net book value 1987
Electric				
Generation plant				
Thermal	$ 713	$241	**$ 472**	$ 499
Hydro	742	94	**648**	663
Other	24	10	**14**	15
Transmission	328	102	**226**	191
Distribution	697	197	**500**	456
Other	162	61	**101**	82
	2,666	705	**1,961**	1,906
Gas				
Gathering, treatment and compression facilities	36	22	**14**	32
Transmission and storage	269	70	**199**	123
Distribution	395	84	**311**	289
Production	—	—	**—**	103
Other	19	6	**13**	22
	719	182	**537**	569
	$3,385	$887	**$2,498**	$2,475

Composite depreciation and depletion rates

	1988	1987
Electric	**3.21%**	3.19%
Gas	**2.57%**	2.66%

Interest capitalized

Amount included in property, plant and equipment	**$ 259**	$ 253

3. Advances from the Province of Saskatchewan
(in millions)

	Debt recorded	Face amount in foreign currency	Maturities (in Canadian Dollars) 1989	1990	1991	1992	1993	1994 & beyond
Canadian Dollar Issues with interest rates of 5.50 to 13.375, weighted interest rate of 11.17%	$ 850	$ —	$—	$15	$ 2	$ —	$—	$ 833
Canadian Dollar Issues callable upon six-months notice with interest rates of 6.75 to 14.06, weighted interest rate of 10.25%	622	—	29	33	29	28	5	498
U.S. Dollar Issues with interest rates of 4.875 to 16.375, weighted interest rate of 12.85%	611	512	—	4	179	175	—	253
	$2,083	$512	$29	$52	$210	$203	$5	$1,584

Certain advances from the Province require the establishment of sinking funds which, upon maturity of the respective advances, are applied to the principal amounts to be repaid. The equity in sinking funds amounted to $276 at December 31, 1988 ($300 at December 31, 1987). Sinking fund installments payable for the next five years are as follows: 1989 - $12; 1990 - $12; 1991 - $11; 1992 - $10; 1993 - $10.

The current portion of long-term debt consists of:

	Consolidated 1988	1987	Electric 1988	1987	Gas 1988	1987
Advances from the Province of Saskatchewan, net of sinking fund installments and applications	$ 8	$ 28	$ 7	$ 26	$ 1	$ 2
Saskatchewan Power Corporation Savings Bonds (Note 4)	108	112	99	90	9	22
	$116	$140	$106	$116	$10	$24

4. Saskatchewan Power Corporation Savings Bonds

Saskatchewan Power Corporation Savings Bonds issued and outstanding are as follows (in millions):

Series	Issue Date	Maturity Date	Interest Rate	Amount Outstanding 1988	Amount Outstanding 1987
II	July 5, 1985	July 6, 1988	9.50%	$ —	$ 81
III	July 4, 1986	July 6, 1989	8.75%	25	76
IV	July 6, 1987	July 6, 1990	8.50%	28	121
V	July 6, 1988	July 6, 1991	9.25%	169	—
VE	July 6, 1988	July 6, 1991	9.25%	127	—
				$349	$278

The interest rates can be increased upon the approval of the Lieutenant Governor in Council. The interest rate on the Series V and VE bonds was increased to 10.5%, effective January 6, 1989 for the six month period ending July 6, 1989. The Bonds are subject to early redemption semi-annually until maturity at the option of the bondholder. Bonds redeemed January 6, 1989 in the amount of $86 million ($33 million January 6, 1988) are classified as long-term debt due within one year.

The Series VE bonds issued in 1988 are exchangeable, at the option of the holder, at any time after December 20, 1988 and prior to maturity for 9.5 common shares of Saskoil (Note 7) per $100 principal amount of Exchangeable Bond. Holders exercising the exchange privilege before July 6, 1989 will receive one additional common share per $100 principal amount.

5. Finance charges

(in millions)

	Consolidated 1988	Consolidated 1987	Electric 1988	Electric 1987	Gas 1988	Gas 1987
Gross interest expense	$283	$288	$243	$245	$40	$43
Less amount capitalized	8	4	7	3	1	1
	275	284	236	242	39	42
Amortization of:						
Foreign exchange	(7)	3	(6)	2	(1)	1
Debt discount and issue expense	4	4	4	3	—	1
	(3)	7	(2)	5	(1)	2
	272	291	234	247	38	44
Less:						
Sinking fund earnings	34	33	27	26	7	7
Interest income	16	7	3	5	13	2
	50	40	30	31	20	9
Finance charges, net	$222	$251	$204	$216	$18	$35
Interest rate used in capitalization	9.41%	9.04%				

6. Extraordinary items
(in millions)

The following items are included in extraordinary items:

Gain on sale of gas properties and equipment to Saskatchewan Oil and Gas Corporation (Note 7)	$172
Settlement of litigation with Cumberland House (Note 9)	(2)
	$170

7. Sale of gas properties
(in millions)

The Corporation sold its interests in its petroleum and natural gas properties and related equipment to Saskatchewan Oil and Gas Corporation (Saskoil), effective May 1, 1988. The transaction amounted to $325 million, composed of the following items:

Cash	$122
Common shares of Saskoil	123
Common share warrants	13
Promissory note	20
Cash flow royalty instrument	25
Gross overriding royalty	22
	$325

The main features of the non-cash components are:

- The 13 million common shares of Saskoil are held by a Trustee and are to be used for the exchange feature of the exchangeable bonds issued by Saskatchewan Power Corporation (Note 4). Any shares remaining after the exchanges are to be sold by the Trustee to corporations or individuals other than Saskatchewan Power Corporation or any related entity.
- The warrants to purchase 5 million common shares of Saskoil are held by a Trustee and enable the holder of each warrant to purchase one common share of Saskoil at $11.00. This option expires October 31, 1990. Under the terms of the trust agreement, the warrants are held for the benefit of the Corporation and can only be issued to corporations or individuals other than Saskatchewan Power Corporation or any related entity.
- The promissory note is due in equal annual payments of $5 million, commencing in June, 1991.
- The cash flow royalty instrument is due in annual installments, commencing in 1995, based on the lesser of 10% of the cash flow from the properties for the period or $5 million.
- The gross overriding royalty is calculated based on percentages of gas revenue produced, from 1% in 1988 to a maximum of 4.5% per annum commencing in 1995. The value of $22 million has been determined by independent reservoir engineers by discounting the value of future estimated production.

The cash proceeds were applied to the early retirement of certain advances from the Province of Saskatchewan. Costs of $4 million on the early retirement of the debt have been included in the extraordinary items.

At December 31, 1988, the shares, warrants and the present value of the note and the instrument are included with other assets and deferred costs.

8. Cash from operations
(in millions)

The components of cash from operations are as follows (1987 restated):

	Consolidated		Electric		Gas	
	1988	**1987**	**1988**	**1987**	**1988**	**1987**
Income from operations before finance charges	**$344**	$287	**$272**	$239	**$ 72**	$ 48
Interest income	**16**	7	**3**	5	**13**	2
Charges to operations not requiring an outlay of cash:						
Depreciation and depletion	**102**	101	**83**	79	**19**	22
Other	**(7)**	(7)	**(5)**	(4)	**(2)**	(3)
	455	388	**353**	319	**102**	69
Net change in non-cash working capital:						
Accounts receivable and unbilled revenue	**(26)**	5	**(30)**	3	**4**	2
Inventories	**(26)**	1	**(4)**	1	**(22)**	—
Accounts payable and accrued liabilities	**25**	(1)	**67**	(33)	**(42)**	32
	(27)	5	**33**	(29)	**(60)**	34
Cash from operations	**$428**	$393	**$386**	$290	**$ 42**	$103

9. Commitments and contingencies

(a) At December 31, 1988, the Corporation was committed in the amount of approximately $423 million for construction materials, equipment, forward exchange and other financial contracts, and on contracts and services not completed at that time. At 1988 prices, the Corporation had forward commitments extending up to 36 years for natural gas amounting to $1,543 million for future maximum deliveries and $1,924 million for coal contracted for future minimum deliveries.

(b) In 1988, settlement was reached with the Cumberland House Local Community Authority #3 on a legal action which was commenced in 1983. The action claimed compensation for damages allegedly suffered due to the construction and operation of the E. B. Campbell Hydroelectric Station (formerly Squaw Rapids Hydroelectric Station). The cost to the Corporation of $2 million has been recorded as an extraordinary item (Note 6).

(c) The Corporation is contingently liable as endorser of certain promissory notes due 2003, arising from the sale of a dragline. In addition, the Corporation is contingently liable for lease payments on certain leased mining equipment, which was assumed by the purchaser of a mining operation. The lease expires in 2005. The total amount of the contingencies is $95 million.

10. Pension plan

The pension fund assets in 1988 amounted to $350 million, which approximated the actuarially-determined present value of accrued pension benefits.

11. Changes in accounting policies

In 1988, the Corporation changed, retroactively, its method of accounting for gas inventories and contributions in aid of construction. The financial statements for 1987 have been restated to conform with the current policies. There was no effect from these accounting changes on the 1987 consolidated net income.

Prior to 1988, the Corporation accounted for its inventories of gas on a first-in, first-out basis. The accounting policy now followed is to record the inventories at average cost. In addition, gas inventories of $34 million in 1987 formerly included with other assets have been reclassified to current assets.

Prior to 1988, contributions received from customers for new service connections were accounted for either as deferred income or included in equity, depending on the nature of the connection and the estimated revenues and costs of service for the connections. In 1988, the Corporation changed its method of accounting for contributions received so that all contributions are classified as deferred income and amortized over the estimated service life of the related asset. The effect of this change for 1987 was to increase deferred income by $100 million, increase retained earnings by $44 million, and decrease equity by $144 million.

12. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statements of financial position and are settled in normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

13. Comparative figures

Certain amounts for the prior year have been reclassified to conform with the presentation in 1988.

Electric operations 10-year financial data (in millions)

Statements of income

	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Revenue	**$639**	$565	$510	$471	$432	$376	$333	$288	$248	$221
Costs and expenses										
Fuel, water and purchased electricity	**125**	97	86	108	89	85	76	60	60	46
Operating, maintenance and administration	**159**	150	158	159	149	140	132	128	107	81
Depreciation	**83**	79	70	58	57	50	46	39	31	28
	367	326	314	325	295	275	254	227	198	155
Income before finance charges	**272**	239	196	146	137	101	79	61	50	66
Finance charges	**204**	216	214	167	165	128	108	82	52	41
Income (loss) from operations	**68**	23	(18)	(21)	(28)	(27)	(29)	(21)	(2)	25
Extraordinary gains (losses)	**(2)**	—	—	—	7	—	—	—	—	—
Net income (loss)	**$ 66**	$ 23	$ (18)	$ (21)	$ (21)	$ (27)	$ (29)	$ (21)	$ (2)	$ 25

Financial summary

	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Property, plant & equipment										
Property, plant & equipment in service	**$2,666**	$2,541	$2,449	$1,955	$1,691	$1,686	$1,415	$1,362	$1,018	$ 960
Construction in progress	**135**	78	48	366	408	320	323	182	303	228
Property, plant & equipment, gross	**2,801**	2,619	2,497	2,321	2,099	2,006	1,738	1,544	1,321	1,188
Accumulated depreciation	**(705)**	(635)	(562)	(505)	(456)	(419)	(384)	(347)	(312)	(285)
Property, plant & equipment, net	**$2,096**	$1,984	$1,935	$1,816	$1,643	$1,587	$1,354	$1,197	$1,009	$ 903
Growth over prior year (%)	**5.65**	2.53	6.55	10.53	3.53	17.21	13.12	18.63	11.74	11.34
Capital expenditures ($)	**180**	128	189	231	232	294	231	226	137	120
Sources & uses of cash										
Cash from operations	**$ 386**	$ 290	$ 348	$ 230	$ 82	$ 172	$ 133	$ 111	$ 55	$ 104
Debt servicing	**(360)**	(325)	(432)	(246)	(238)	(212)	(164)	(168)	(90)	(97)
	26	(35)	(84)	(16)	(156)	(40)	(31)	(57)	(35)	7
Capital expenditures, net of interest capitalized & other	**(184)**	(136)	(183)	(188)	(197)	(259)	(207)	(208)	(118)	(121)
Financing	**194**	172	267	258	252	293	387	243	58	101
Increase (decrease) in cash	**$ 36**	$ 1	$ —	$ 54	$ (101)	$ (6)	$ 149	$ (22)	$ (95)	$ (13)
Finance charges as a per cent of revenue (%)	**31.92**	38.23	41.96	35.46	38.19	34.04	32.43	28.47	20.97	18.55

Natural gas operations 10-year financial data (in millions)

Statements of income

	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Revenue	$298	$306	$345	$382	$372	$335	$323	$245	$205	$186
Costs and expenses										
Gas	140	168	209	240	236	236	210	145	114	106
Operating, maintenance and administration	67	68	70	69	64	59	60	51	40	36
Depreciation	19	22	25	20	14	12	12	12	11	10
	226	258	304	329	314	307	282	208	165	152
Income before finance charges	72	48	41	53	58	28	41	37	40	34
Finance charges	18	35	31	30	26	19	14	14	15	15
Income from operations	54	13	10	23	32	9	27	23	25	19
Extraordinary gains	172	—	—	—	—	—	—	—	—	—
Net income	$226	$ 13	$ 10	$ 23	$ 32	$ 9	$ 27	$ 23	$ 25	$ 19

Financial summary

	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Property, plant & equipment										
Property, plant & equipment in service	$719	$817	$765	$684	$611	$532	$469	$428	$412	$390
Construction in progress	27	9	8	7	9	9	6	8	3	2
Property, plant & equipment, gross	746	826	773	691	620	541	475	436	415	392
Accumulated depreciation	(182)	(248)	(230)	(207)	(188)	(175)	(160)	(148)	(136)	(126)
Property, plant & equipment, net	$564	$578	$543	$484	$432	$366	$315	$288	$279	$266
Growth over prior year (%)	(2.42)	6.45	12.19	12.04	18.03	16.19	9.38	3.23	4.89	3.91
Capital expenditures ($)	135	57	84	72	75	54	41	22	23	21
Sources & uses of cash										
Cash from operations	$ 42	$103	$ 73	$ 73	$ 72	$ 28	$ 47	$ 30	$ 48	$ 35
Debt servicing	(65)	(63)	(71)	(41)	(41)	(37)	(25)	(36)	(33)	(31)
	(23)	40	2	32	31	(9)	22	(6)	15	4
Capital expenditures, net of interest capitalized & other	(116)	(57)	(97)	(71)	(74)	(58)	(40)	(22)	(22)	(3)
Financing	105	57	76	69	29	72	27	23	—	—
Increase (decrease) in cash	$ (34)	$ 40	$ (19)	$ 30	$ (14)	$ 5	$ 9	$ (5)	$ (7)	$ 1
Finance charges as a per cent of revenue (%)	6.04	11.44	8.98	7.85	6.99	5.67	4.33	5.71	7.32	8.06

SaskPower senior executive
at December 31, 1988

George D. Hill, QC
President and
Chief Executive Officer

Fred Bates
Executive Vice-President

Harvey Jim, CA, P.Eng.
Senior Vice-President, Finance

Bob Lawrence, P.Eng.
Senior Vice-President, Operations

Lawrie Portigal, LL.B.
Senior Vice-President, Corporate Affairs

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